

VZCZCXRO5828
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHLG #0642/01 3291418
ZNR UUUUU ZZH
R 251418Z NOV 09
FM AMEMBASSY LILONGWE
TO RUEHSD/SECSTATE WASHDC 0082
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHLO/AMEMBASSY LONDON 0420
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC

UNCLAS SECTION 01 OF 02 LILONGWE 000642

SENSITIVE
SIPDIS
LONDON FOR AF WATCHER PETER LORD

E.O. 12958: N/A
TAGS: [EFIN](#) [PREL](#) [ECON](#) [MI](#)
SUBJECT: MALAWI TO EASE FOREX PEG, OTHER RESTRICTIONS

REF: LILONGWE 610 and previous

LILONGWE 00000642 001.4 OF 002

Summary

[11](#). (SBU) Governor of the Reserve Bank of Malawi (RBM) Perks Ligoya told the Ambassador the RBM will allow the exchange rate to move, and will relax its rules regarding forex deposits with the bank in an effort to address the country's ongoing foreign exchange shortage. The Government will further tighten fiscal discipline and increase payments on domestic debt. Ligoya also discussed the President's plan to establish a development bank in Malawi. Post will monitor closely progress on the ultimate implementation of the reform plans. End summary.

Reserve Bank Governor Facing a Big Challenge

[12](#). (SBU) Governor of the Reserve Bank of Malawi (RBM) Perks Ligoya told the Ambassador on November 18 the RBM will take action to address the country's ongoing foreign exchange shortage. Ligoya noted the difficulty of the task, given the degree of Malawi's dependence on donor support. He acknowledged that GOM mistakes had contributed to present difficulties, particularly in buying too much fertilizer last year at a time when prices were at historic highs.

[13](#). (U) Ligoya said the Bank's objectives include maintaining growth rates of 6 percent or higher, keeping inflation low (single digits), and maintaining fiscal discipline -- all things that the GOM had achieved in recent years. The challenge would be to sustain this performance and increase foreign exchange reserves at the same time, he said.

Monetary Commitments

[14](#). (SBU) On the monetary side, Ligoya said the key policy action will be to allow flexibility in the exchange rate (reftel). He explained that after considering several options the RBM had determined that an 8 percent adjustment in the exchange rate, increasing to around MK 150 per US dollar, would correct the current imbalance. Ligoya said the RBM was committed to making this adjustment before the January IMF board meeting. The Bank will also eliminate the current forex surrender requirement, under which commercial banks must transfer to the RBM half of the forty percent of earnings that exporters are allowed to retain in foreign exchange.

[15](#). (SBU) Ligoya said the RBM should continue to buy dollars at the tobacco auctions, so that forex could be made available to smaller banks that would be marginalized at the auctions. He said RBM buying should continue to ensure a sufficient cushion of forex, but noted that if the IMF insisted that the practice stop, the RBM would comply.

Fiscal Commitments

¶16. (SBU) Noting that Malawi was now half-way through its fiscal year with a budget that was already tight, Ligoya said fiscal adjustments would be more complicated to implement. He said the GOM was committed to increase domestic debt repayments to 1.5 percent (from 1 percent budgeted) to help rebuild reserves. He claimed that forex reserves could be increased from 1 to 1.7 months cover by June 2010.

Ligoya also said that the GOM was committed to reduce expenditures on goods and services, such as travel, although there would be no reduction in the development budget. He added that tariffs at the parastatal water and electricity utilities needed to be increased to cost-recovery levels, and that something would need to be done with other unprofitable parastatals, although he did not offer specifics.

(Note: The state power utility, ESCOM, announced a 36% rate hike on November 23.)

¶17. (SBU) Pointing out that the U.S. is now the largest bilateral donor to Malawi, the Ambassador welcomed the implementation of the exchange rate reform and fiscal discipline. The Ambassador encouraged Ligoya to look to the U.S. for technical assistance if that would be of use as the GOM prepares for and implements these reforms.

Governor Pitches Development Bank

¶18. (SBU) Ligoya informed the Ambassador that President Mutharika was committed to establishing a development bank in Malawi, and that he had tasked the RBM with making it happen. Acknowledging the poor track record of development banks in Africa, Ligoya stressed Malawi's bank would be a private entity, with government holding only small stake (about 20 percent) and remaining in the background.

The Ambassador suggested that Ligoya present a proposal for the

LILONGWE 00000642 002.4 OF 002

bank to the broader donor community.

Comment

¶19. (SBU) Recently appointed RBM Governor, Ligoya is a pragmatic and capable official who understands the steps needed to ensure the country's continued prosperity. Although the recent IMF mission and the country's ongoing fuel shortages have forced some flexibility, presidential intransigence will likely remain Ligoya's most difficult policy constraint.

BODDE